RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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BIG STORY: Here's the way I see it. The US economy is expanding -- some even believe that we're on the edge of a boom -- it could be. Furthermore (despite what the Fed has been saying) inflation is beginning to heat up. But there's an added ingredient: not only is the US economy expanding, but the economies of the world are expanding. Consequently, everybody needs money. The global expansion is putting pressure on interest rates, which are now rising worldwide.

Ah the stock market -- the stock market is in a dilemma. It's faced with two opposing forces -- expanding business on the one hand and rising rates on the other. The rising rates are putting a "squeeze" on the stock market. But better business is tending to keep investors optimistic and buying.

My prediction: consumers (their buying comprises two-thirds of our Gross Domestic Product) are bought up as well as in debt up to their eye-balls. As rates move higher consumers will pull in their horns and the US (probably some time next year) will sink into recession. This, I believe, is what the stock market "sees" as it bounces around under its bull market highs.

To add a question mark to the above weird mixture, the Clinton presidency is unraveling, with the President's approval rating plunging below 40% (an unprecedented low rating for a president at a time when the US economy is still expanding).

So what we're looking at is the very early phase of a bear market in stocks, a bear market with a very long lead-time over the economy. But in the end the bear will win, the economy will turn down (actually, with rates now rising, Americans have already pulled back substantially on buying homes, cars and other large-ticket items).

MARKET PICTURE: Up to this point I call what we're seeing on Wall Street the "Stealth Bear Market." How so? Doug Kass (research director at JW Charles/CSG) studied all stocks that trade for $5 or more and found that 75% of them are down at least 20% from their 1993-94 highs. Nearly half (47%) are down 30% or more, 27% are down 40% or more, and 13% are down 50% or more. Kass' statistics jibe with Joe Granville's latest exclusive study (nobody else does this), a study that shows that 709 NYSE stocks are now within one point or less of their 52-week lows (while only 274 NYSE stocks are within one point or more of their 1993-94 highs).

I'd guess that most recent stock-buyers are now showing losses for their efforts. Which is not so unusual, considering that they've been doing most of their buying with the market deep in the "danger zone." (I call it the danger zone, based on the fact that the Dow is currently yielding only 2.70%.) But what's particularly ominous is that so many losses are being registered with the Dow only a few percentage points off its bull market high. You have to wonder -- what will happen to the mass of stocks when the Dow itself finally heads down?

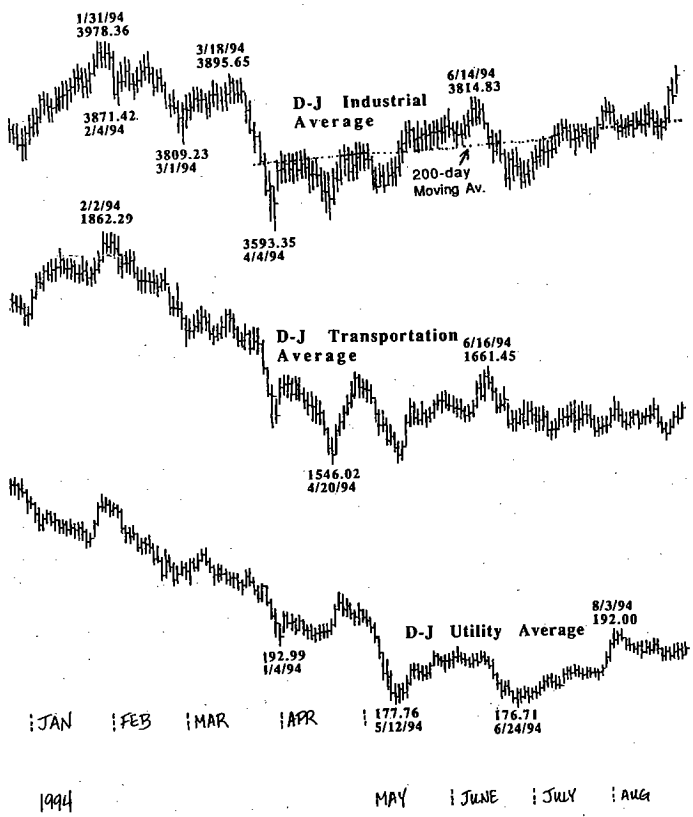
Today the situation is particularly interesting because we have literally thousands of mutual funds still actively buying stocks, with a great many of these funds being run by young managers. And I find myself wondering -- will this end up as a case of "youth being served" -- or youth being served a bitter lesson? Time will tell.

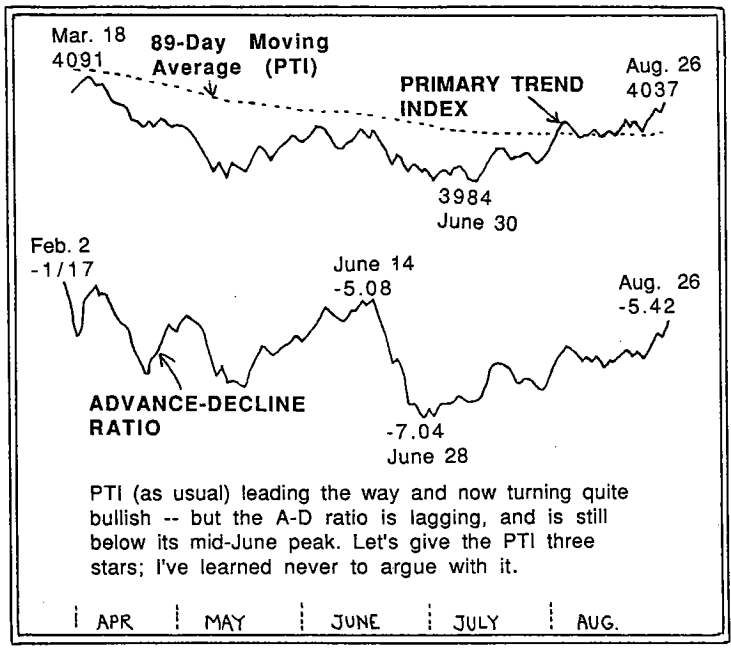
Aug. 19 DJIA 3755.11; PTI 4024; A-D Ratio -5.97
Aug. 26 DJIA 3881.05; PTI 4037; A-D Ratio -5.42
Dow Yield: 2.64%; Dow Price/Earnings: 19.9
Dow 200-day MA: 3767; Dow 30-day MA: 3767
Dow Times Book Value: 3.47; PTI 89-day MA: 4017
Percentage of Undervalued Blue-chips: 13%
Dow Low Risk Buy Index: +18; Gold-PTI: 914
Gold 40-week MA: 383

Younger Wall Street analysts enjoy many advantages: they tend to be enthusiastic and hard-working, they are mostly learners, they have a great many tools that we older guys never had (for instance -- computers, excellent books, advanced technical studies, sophisticated investment programs). And, if these young analysts are talented, they have the luxury of a lot of years ahead of them. However, most things in this world are trade-offs and being young is no exception.

One problem younger analysts have is that they tend to lack perspective. Three, four or even ten years in the investment business isn't a long time. This is particularly true for today's analysts, since they've been living through a market which has been basically doing only one thing for the past decade -- gently climbing.

People (even fund managers) tend to be guided by their most recent experience. And certainly young analysts who have been conditioned by over ten years of rising prices must have a hard time even imagining what it's like to live through (survive) a bear market.





Market volatility during 1991, 1992 and 1993 was the lowest on record (low volatility = no violent moves either up or down). And three consecutive years of extremely low volatility is unprecedented in Wall Street history. This amazingly low volatility has encouraged the public to swarm into the stock market with hundreds of billions of dollars of their savings. The public loves a market that gently, on low volatility, floats upwards. No frightening corrections, no erratic or violent moves, no major worries, very few shake-outs. Gosh, it's so safe, so soothing, why it's like riding the up-escalator at Macy's.

But veterans (particularly veteran commodity traders) know that extended periods of low volatility tend to be followed by periods of high volatility. *"After the calm comes the storm."*

Now for a bit of history. In the last letter I noted that the current price/dividend ratio for the Dow was a very high **37** (the ratio is obtained by dividing the value of the Dow by total Dow dividends, which are now $102.33). There have been very few times in history when the Dow/dividend ratio has been as high as it is now (and never has the stock market been overvalued for this long of a time).

Subscribers shake their heads in disbelief when I tell them that before the bear market is over the Dow could easily lose half or more of its current value. Let me tell you why I say this, or to put it another way, let me give you some examples of Dow/dividend ratios at previous bear market lows.

In late-1917 the Dow sold for **10.63** times its dividends. At the 1921 bear market low the Dow sold for **15.15** times its dividends. In 1932, at the bottom of the worst bear market in US history, the Dow sold for **8.33** times its dividends. At the 1938 bear market low the Dow sold for **12.64** times its dividends. In 1942, at the depths of World War II, the Dow sold at **12.75** times dividends. In 1949, at the start of a great 1949-66 bull market, the Dow sold at **13.73** times dividends. In 1953, during a correction, the Dow sold for **16.64** times dividends. In 1974, at the bottom of a crushing bear market, the Dow sold for **16.34** times dividends. In 1978 the Dow sold for **15.97** times dividends. Again, in 1980, the Dow sold for **15.60** times dividends. And as late as 1982 the Dow sold for **16.14** times dividends.

So there we have 11 instances in which the Dow sold for anywhere from 8.33 to 16.64 times dividends. If this bear market hits its stride and the Dow goes down to merely the highest of the 11 above ratios (which was the 1953 ratio of 16.64), then the Dow would sell at 16.64 times its current dividends of 102.33, giving us a Dow price of 1703 (which, as you see, would not be that unusual in the light of history).

That should give you some idea of how overvalued the Dow is now, and where a bear market could so easily take the Dow.

While I'm on this subject, one thing that confuses most investors (including many professionals) is how far-seeing the stock market can be. There have been instances where the market has topped out a year-and-a-half before the economy hit its peak and turned down.

Earnings poised to hit 6-year high

By Donna Rosato
USA TODAY

Investor worries that rising interest rates will slow corporate earnings growth could be overblown.

In fact, the outlook for earnings is bright: This year is on track to be the strongest for corporate profits since 1988.

But for months, stock indexes have gone virtually nowhere and trading volume has dried up. That's been mostly because of fears that rising rates would not only slow the economy but also stall earnings growth.

S&P 500 company earnings will be up an average 17% from 1993. Next year, S&P 500 company earnings are expected to rise an average 14%. That's up from the 10% gain forecast just a few weeks ago.

Investors should keep in mind that analysts tend to be an optimistic bunch. Still, market watchers say they have good reason to be positive.

"The U.S. economy is growing, foreign economies are recovering and corporate restructurings are paying off. It makes sense that estimates are going up," Zacks says.

Even if the Federal Reserve

I have included this headline from a recent issue of *USA Today*. No question about it, earnings are looking up, and they will -- for a while. But as the old saying goes, all news is history. In this business we're not interested in the news -- but we are most definitely interested in the market's reaction to the news. So far, the market's reaction to the better earnings news has been a fairly big yawn. "News known is news discounted."

So it's obvious (at least it is to me) that this market is looking well past the good-earnings news. It's looking past the current optimism; it's looking past the excitement of those hot, newly-designed American cars, it's looking past the rosy steel picture and it's looking past the encouraging news of the US' world lead in computers and electronics.

Like a bear that's hungrily lapping up honey, the stock market is gobbling up all the good news and the result is -- many individual stocks in the loss column and all the major averages still under their highs.

LATE PRICE ACTION: On August 24 (as the dollar finally strengthened along with bonds) the Dow shot up 71 points, taking the senior Average above its June peak of 3814.83 (see page 1 chart). The Transportation Average, however, failed by a wide margin to confirm. From a Dow Theory standpoint, the big question now is whether the Transports will confirm -- a confirmation would entail Transports bettering their own June peak of **1661.45.**

This is a good time to remember the time honored Dow Theory "rule" which states that a penetration of one Average, unconfirmed by the other, is meaningless for prediction purposes and is more likely than not to be deceptive.

But let's be cold and impartial about the situation. What if the Transports do confirm? A confirmation by Transports (i.e., bettering 1661.45) would be impressive and would probably put the Averages in position to at least try for the highs.

A warning -- the majority of stocks are still lagging badly behind the Dow. This can be seen in the sub-standard recovery of the Utility Average (which is a fair proxy for all interest-sensitive stocks). It can also be seen in the dearth of daily new 52-week highs on the NYSE. For instance on August 24, a day when the Dow was up 71 points, there were only 56 new highs registered on the NYSE, a surprisingly small number.

In the meantime, we also see an unusual divergence between my PTI and the Advance-Decline Ratio (page 2 chart). The PTI has rallied above its 89-day moving average while the A-D ratio has been sluggish and as this is written the A-D is still well below its June peak.

Question: What is the PTI saying? Answer: As I interpret it, the PTI is telling us that since June 30 (PTI was 3984) there has been persistent underlying strength in the market, enough strength to push the PTI above its 89-day moving average. However, I do not think this is a signal for a "return of the bull market," I believe it's simply an upward correction.

You know, it's ironic -- I invented the PTI and it's been one hell of a good indicator. The only problem is that I'm not infallible in my ability to read it. If I were able to read the PTI perfectly, I'd probably have more money than Bill Gates and Warren Buffett combined.

BONDS: If you totally forget about the problems of the dollar, you can make an interesting case for longer-maturity bonds. The Fed has increased the Fed Funds rate five times, and most recently they boosted the discount rate. Ostensibly, this was done to forestall inflation. The odds are that the August 16 rate increase was the last for a while and maybe for this whole cycle.

But what if business slows down or turns down this fall or even in the spring of '95? If that happens (and there is a good chance that it will) then rates will probably be lowered again, if not by the Fed, then by the market itself. On this basis, many money people are now nibbling at the long end of the Treasury bonds.

Of course, nobody buys 30-year bonds in this age of eroding dollars with the idea of holding the bonds to maturity. You buy them to hold for a profit. My opinion -- buying the long-maturity T-bonds somewhere ahead should be profitable, but I think now is too early.

INVESTMENT POSITION: *"Ah, take the cash, and let the credit go, nor heed the rumble of a distant drum"* (from the Rubaiyat by Omar Khayyam).

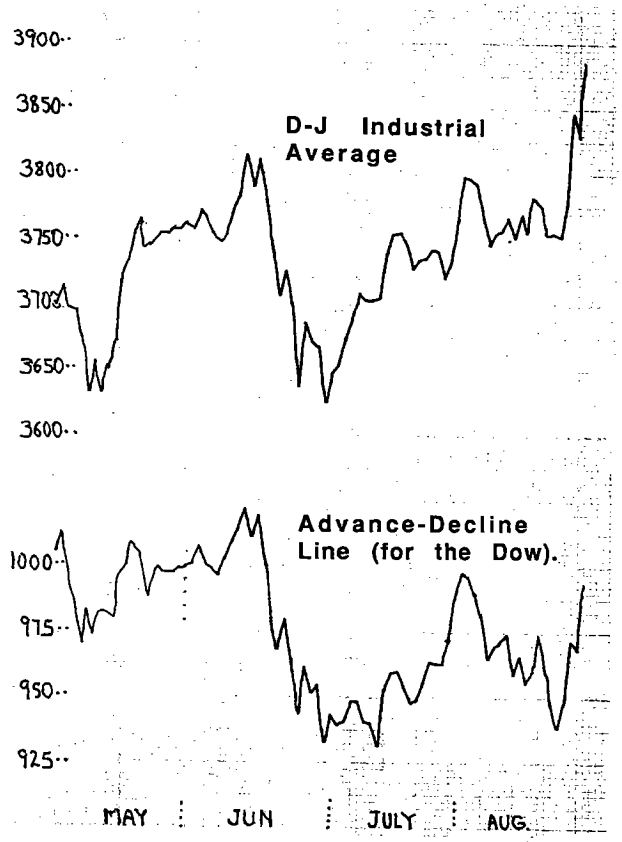
Question -- what should a stockholder be doing here? Answer -- selling. Question -- what should a Dow Theorist be doing here? Answer -- sitting patiently and watching the show. Question -- what's the stock market doing here? Answer -- eroding. Question -- what's the bear doing here? Answer -- talking up the economy, and telling anybody who will listen that "everything's all right."

I'll make it short and to the point. The bear's in the box, which means that I believe we're in a bear market. And that in turn means we're holding cash, some gold (gold coins, gold stocks), T-bills and cash, cash and more cash. Look at it this way -- you've had your fun, and now you've taking a position of safety. So don't be greedy, "let it go," let the other guy make his play. Let your neighbor rack up profits in this budding bear market; you stand aside. It's not going to be easy from here on.

DOW BREADTH: This is an important study but one that is not often followed. What we see here is an advance-decline line made up of only the 30 D-J Industrial stocks. The Dow A-D is constructed by taking the daily plurality of Dow advances over declines (or declines over advances if the Dow is down) and posting those differentials as a running total.

The study is particularly important now, because the Dow has been the real island of strength in this market. But when we examine the internal structure of the Dow we find that the Dow advance-decline line is lagging. This means that instead of broad strength in the 30 stocks that make up the Dow, what we've been seeing is strength in a limited number of Dow issues. This, of course, is the reason for the lag or divergence in the Dow A-D line vs. the Dow itself.

If the Dow A-D continues to lag, it will, in time, drag the Dow down with it. And if the Dow (which is the strongest element in this market) tops out, we can be sure that a falling Dow will take the rest of the market down with it.



NOTES & QUOTES: How're We Doin'? Let's see, according to the latest figures, the national debt is now $4.667 trillion. Exactly one year ago, it was $4.376 trillion. That means that over the last 12 months we've added $291 billion to the total national debt. But wait -- I thought we were doing so much better on the deficit. Yeah, right, with the help of smoke and mirrors (since the Administration doesn't count off-budget spending). The figure above, that's what has actually been added to the national debt. That's the real deficit. And you wonder why the dollar's weak?

Breaking down last year's federal expenses, we see that Uncle Sam spent $667 billion on social services. He spent $250 billion on non-defense and so-called "discretionary." Uncle spent $292 billion on defense. And he spent $199 billion on interest on the national debt. That's a lot of spending, when you think about it.

One of the basics of long-term dollar weakness is the trade gap. Everyone is aware of the current $40 billion negative trade gap that the US has with Japan. But check this -- the US is spending over $1 billion a week on imported oil (most of it coming from the potentially explosive Middle East). This imported oil bill amounts to over $50 billion a year. Worse, the US is doing almost nothing about developing our own domestic oil production. It's a growing problem, and it's one that is almost guaranteed to develop into a crisis.

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US consumers have been on a super-buying binge. Consumer installment debt grew by more than $10 billion a month during March, April and May for an annualized rate of 18.7%. Russell comment: This harkens back to the wild-spending days of the 1980s, but this kind of wild spending can't keep up.

To me, one of the mainstays of sanity and the good life, from an economic standpoint, is savings. Saving builds capital, saving generates income, saving builds a sense of security and allows for freedom (freedom from want, freedom to do what you want).

Frankly, I don't know how the average family survives today. Their expenses are high, they tend to be in debt, they seem to live from hand-to-mouth or from one government handout to the next. Furthermore, government encourages spending, rather than saving (our crazy tax system certainly discourages saving) and Clinton has become the modern "Prince of Entitlements." Personally, I've never seen an enterprise run by the government that I felt couldn't

be operated better by the private sector. In my opinion, the trend to big (massive) government has literally demoralized this nation. Big government's largesse has gone a long way towards creating the underclass that we have today. Furthermore, and unhappily, I don't see anything that will change the dangerous course we're on -- except chaos or eventual collapse.

* *

Monetary history is actually quite fascinating. Did you know that the first US currency appeared at the outbreak of the Revolutionary War in 1776, during which time each state issued its own paper money. Congress printed about $240 million in notes called "Continentals." So many Continentals were printed that by 1780 they had become almost worthless. After the collapse of the Continentals, lawmakers were so down on paper money that none was issued again until the 1860s. The Union and the Confederates both financed the Civil War with their own paper money. These were the famous "greenbacks." But Confederate money became worthless when the Confederacy lost the war . . . In 1879 the US government offered to redeem greenbacks for their corresponding value in gold. The US remained on the "gold standard" (i.e., dollars backed by gold) until 1971.

Thomas Jefferson, John Adams and Benjamin Franklin designed the great seal of the US. The seal appears on the one dollar bill. Two Latin phrases are on the bill, "Annuit Coeptis," which means "God has favored our enterprise" and "Novus Ordo Seclorum," which means "a new order of the ages." An unfinished great pyramid appears on the seal topped by the all-seeing eye of God, a Masonic icon (which, by the way, inspired a number of weird conspiracy theories). Actually, a great many of the founding fathers were Masons. Franklin was a very high Mason.

In 1929 the size of the US currency was reduced by 25% and the notes were standardized with the portraits of many famous deceased American men (never a woman). The pre-1929 notes were called "horse blankets" due to their ungainly size. The first new designs for US bills since 1929 will appear in late-1995 or '96 . . . Interestingly, there is about $350 billion in actual US currency outstanding, 70% of which is held (and actively traded) overseas.

* *

The Japanese are now the world's biggest buyers of gold ingots. In the first six months of this year Japanese investors bought 48.5 tonnes (worth $630 million) of gold, up from 31.5 tonnes in the same period last year. According to the *Economist,* "During the 1980s economic boom, ingots were as popular with newly-rich Japanese as Impressionist paintings and golf-club memberships. These days, however, gold has a broader fan club. Many of the new gold-bugs are 'office ladies,' who make regular payments to their banks, which then buy gold on their behalf and stash it in their vaults. Fuji Bank, a leader in this field, has 70,000 'gold accumulation accounts' that each attract an average of six to seven thousand yen a month."

* *

These interesting comments from the *Klein-Wolman Investment Letter* (15 Roszel Rd., Princeton, NJ 08540): "The US dollar has been supported primarily by the purchases of foreign central banks. These purchases are reflected in central bank holdings of US Treasury securities at the Federal Reserve. Over the past year, these holdings have increased by 22%, a large number. Central banks now hold $391 billion in Treasury securities, significantly more than the Fed's own holdings of Treasury securities, which amounts to $348 billion. The fact that central banks have been buying dollars just to keep the dollar where it is now does not say much for world confidence in our currency. It clearly means that there is little confidence in the Clinton administration."

* *

Quotes: The following quotes are from the *International Herald Tribune.* I love this paper and have recommended it many times to my subscribers. A few years ago I got a letter from the publisher at the *Trib* thanking me for my recommendation. And, I'll be darned, in appreciation that nice *Tribune* informed me that they were giving me a free subscription to the paper (a sub which I still get). Is this a class outfit or what! I continue to recommend this great international daily and in all honesty, wouldn't be without it -- you can subscribe by calling (800) 882-2884.

This from *Trib* columnist Kenneth Courtis: "Economies are growing again in Europe and Japan. There is robust growth throughout East Asia and continuing expansion in North America. The long-term savings rates of all industrialized nations, except Japan, are declining while debt levels are rising everywhere. As a result, interest rates are set to climb -- *much higher than is widely realized.* The process has already started. The Reserve Bank of Australia raised interest rates by three-quarters of a point on Wednesday for the first time in five years. That followed the move by the Federal Reserve and recent increases by several European countries . . . As economic momentum builds in Europe and Japan, *pressure on interest rates will intensify,* especially for high-deficit economies. Such countries will then face the choice of allowing their currencies to fall or interest rates to rise further. Neither markets nor governments appear prepared for these developments."

From a recent *Trib* column (David Broder): "Mr. Clinton came to town full of ideas for changing Washington and the country, but the House Democrats, to whom he has increasingly tied himself, have been in power for 40 years. They not only like the status quo, they are the status quo."

* *

With the baseball strike still on, let's see how these jocks really do. There are 700 big league baseball players. Their average salary is $1.2 million, their minimum salary is $109,000. And their average major-league career is six years. Now let's take football. Here there are 1,400 players with an average salary of $737,000, and a minimum salary of $108,000. Average pro football career is a short 2-4 years. Basketball players, there are only 300 of them. They have an average salary of $1.5 million and a minimum of $140,000. Average pro career is seven years. But there are drawbacks. Tall men don't tend to live as long as average or shorter men. And for football, the average pro football player's life span is 15 years below the average for US males.

* *

Money in Sports: How's this for a profit? In 1985 Norman Braman bought the Philadelphia Eagles football team for $65 million. He did it with a downpayment of $6.8 million (he borrowed the rest). At the time the Eagles weren't doing very well. In '83 and '84 the Eagles lost a total of $4 million and the team had liabilities over assets of $24.9 million. But Braman turned the franchise around. Four months ago Braman sold the Eagles to Jeffrey Lurie for what amounted to $198 million, the largest sum ever paid for a sports team.

* *

Only in California: I clipped this piece from our local La Jolla newspaper. In the end, they gave a wake down on the beach, and darned if they didn't cook and eat the fish.

La Jollan drowns after spearing fish

A La Jolla man was found dead Sunday off Hospital Point after disappearing the previous day during a fishing expedition.

David Phillo Andersen, 30, is believed to have blacked out after being pulled under water by a large fish he had speared, according to Sgt. Nick Lerma of San Diego Lifeguard Services. After passing out he apparently drowned.

"When they recovered his body they found him with the spear gun in his hand and he still had the fish," Leslie Andersen said. "I know he died just thrilled. He died stoked all the way."

The family plans to have the fish, a white sea bass estimated to be about 40 pounds.

* *

My jeweler friend here in La Jolla tells me that the nation's jewelers don't like going to the big (trade only) jewelry show at Jacob Javits Convention Center in NYC. Why? It's too expensive being in NY. The new preferred place is Las Vegas, which will soon boast the nation's biggest jewelry trade show. Speaking of Las Vegas, the number of vacationers headed for Vegas shot up 26% during the first four months of '94, while gambling (oops, gaming) revenue was up 22%. Sheraton has announced plans to build a 3,500 room hotel and casino to open in 1997. And MGM Grand and Primadonna Resorts recently announced plans to build a $300 million hotel and casino called "New York, New York" to open in 1996. It will have replicas of the Statue of Liberty, the Empire State Building, Central Park and Coney Island, Times Square, the

Brooklyn Bridge and Rockefeller Center. All this on the Nevada desert. Does that mean that I'll never have to go east of the Mississippi again? Visitors to Las Vegas last year -- 26 million. Visitors to Atlantic City (would you believe) -- 30 million.

* *

I read all about the '94 Woodstock. That's one I was happy to pass on (I don't like crowds or mud). I've done my stint with jazz and pop music. I was a frequent visitor to Harlem during the '40s when the great jazz pioneers were playing (and jamming the night away -- the Hawk, Eldridge, Christian, Carter, Webster, etc.). I saw Billy Holliday on 52nd Street along with the King Cole Trio (that was before Cole knew he could sing). I danced to Basie at the Savoy Ballroom, I saw Armstrong at the Apollo theater and I frequented the Paramount Theater and the Pennsylvania Hotel in the days when Sinatra, the Dorseys, Glenn Miller and the great Benny Goodman were in their prime. Out in California I hit the '60s concerts; I went backstage and talked to Janis Joplin (guarded by Hell's Angels), I stood on my chair (everybody did) to see the Rolling Stones here at the Sports Arena, I loved Cat Stevens (one of the great performers) and I danced to the Moody Blues. But confession -- rap is beyond me, and I find that most of MTV is boring, non-musical noise. And I wonder whether there will ever again be a need for great song-writers. (Would Irving Berlin and Richard Rodgers and Moss Hart starve today?)

* *

Figures & Statistics: Currently there are 16,000 financial planners in the US. But so far in 1994 an additional 24,000 have registered to take the financial planner exam (I can't decide whether this is ominous or not, I suspect it is) . . . The Social Security system employs 64,000 people. I called on August 16 to inquire about finally getting my SS, and they said the quickest appointment I could get was September 9. That had me wondering that with 64,000 people ostensibly on the job, why it should take so long to get an appointment . . . Last year the National Football League sold (would you believe) $3 billion worth of NFL licensed merchandise, up from $2.5 billion the year before . . . In 1965 shoplifting cost US businesses $6.1 billion; in the 1990s it cost businesses $37 billion annually. In 1965 police protection (federal and state) cost the US $12.2 billion; in the 1990s it cost $31.8 billion annually. In 1965 corrections (prisons, jails) cost $4.4 billion; in the 1990s they cost $24.9 billion annually. In 1965 court costs were $2.3 billion; in the 1990s court costs are $7.2 billion annually (figures from the *Justice Dept. Sourcebook on Criminal Justice Statistics*).

* *

Many subscribers have heard of the Austrian school of economics, whose ideas were promulgated by F. H. Hayek and Ludwig von Mises. But what do the Austrians really believe? Here are a few of their concepts. Money -- Austrians are against currency inflation and want a return to the gold standard. Banking -- there should be no central bank (the Fed), and interest rates should be allowed to fluctuate freely in the market. Privatization -- they support the privatization of most government functions including the Postal Service and roads and bridges -- and some even favor privatization of the court system and national defense. Anti-Trust -- Austrians oppose anti-trust laws and ask why some firms should be punished because they perform better than their competitors. Trade -- they oppose quotas, barriers and tariffs. Health -- Austrians would get government out of health. The more government, they say, the lower the quality of health care. Labor -- employers should have the right to hire and fire whomever they please. In a phrase, Austrians would like to get the government out of almost everything. Nothing works better than the free market. Governments tend to mandate. Austrians say that mandating doesn't work, that people and markets are both unique and unpredictable. Are the Austrians conservatives or liberals? You decide.

* *

Free Enterprise: FCC Chairman Reed Hundt on why Congress should pass laws allowing competition between local phone companies, cable TV operators and longer-distance carriers: *"If you don't like the service or the price of your cable operator, you'll have somebody else to go to. If you think your telephone company ought to be providing you with new and different services, you'll have somebody else to go to. If you think your long-distance bill is too high, there will be more competitors and so more choices."* Russell comment: Gosh, that's just another way of saying that we should get the government out of business.

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A subscriber from Pittsburgh, PA writes that he saw this sign on a local repair shop: "We do three kind of jobs: Cheap, Quick, Good. You can have any two of the above as follows. (1) A good job quick, but it won't be cheap. (2) A good job cheap, but it won't be quick. (3) A cheap job quick, but it won't be good. Decide at your own risk! Thank you, repair job." Russell comment: Thank God there are still some honest people in America -- and with a sense of humor too!

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Four million jobs have been created since Clinton was elected president -- but the great bulk of the jobs are sub-standard. The reasons? One group of economists believe the problems are the new global competition, deregulation of the domestic economy, lower minimum wages and weaker unions. Other economists say, "Skills are up, but wages are down. Productivity is up but the medium wage is falling." Productivity backed by computers is the Russell view. Almost every day we hear reports of layoffs by firms as companies learn how to do the same work with anywhere from 10% to 25% fewer workers (including both blue and white collar workers).

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Who says Public Broadcasting doesn't show great programs? Last week I saw *"A Fighter Pilot's Story."* This was a six-hour program about Quentin Aanenson, a P-47 fighter pilot who flew in almost every European campaign. I have never seen a program that brought me so close to the actual (dreaded) feelings of war. Many younger readers may not be aware of it, but 400,000 Americans died during World War II. Of those, 40,000 were Air Force men. Aanenson flew combat with the 366 Fighter Group. In his single group 127 planes were shot down and 90 pilots died. In all of WWII 9,000 US fighter planes were knocked out of the skies as were an equal number of bombers. Personally, I never flew a single mission that my plane was not hit by flack (i.e., anti-aircraft fire). Consequently, I've always considered myself extremely lucky to have survived the war.

* *

Hit Parade: What are the most stolen car makes in '94? Number 1 -- the Mercedes SL convertible; next Volkswagen Cabriolet, Ford Mustang Convertible, Ford Mustang and the Chevrolet Corvette Convertible. Do they like convertibles or are the converts just easier to bust into?

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Speaking of loss, *Money* magazine (Sept.) estimates that the Clintons have lost 15.6% on their blind trust so far in '94 (based on the performance of GAM Boston, a London-based $29 million fund which is also run by the Clintons' trust manager).

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In *Money* mag's annual survey, the top "best cities to live in" (US only) are (1) Raleigh/Durham/Chapel Hill, NC; (2) Rochester, MN; (3) Provo, UT; (4) Salt Lake City/Ogden, UT; (5) San Jose, CA; (6) Stamford/Norwalk, CT; (7) Gainesville, Fl; (8) Seattle, WA; (9) Sioux Falls, SD; (10) Albuquerque, NM; and I have to add -- (11) San Diego. San Diego was also listed number 4 among the 5 best BIG cities to live in.

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I continue to receive letters about EDTA chelation. I just had my 31st treatment. For new subscribers, chelation is an intravenous infusion of an amino acid, which evidently goes a long way in clearing out clogged blood vessels. The treatment is ignored or denigrated by most orthodox physicians, but here's what I can tell you. I was suffering from angina (heart) pains which I would get every month or so. Often a few months would go by with no pains, but then I'd get two or three attacks within a week. After 20 chelation treatments (for whatever reason), the angina disappeared. Does chelation "work," or is it a placebo? Are the orthodox physicians correct? Listen, the angina has disappeared -- something has worked. I'm now taking a chelation treatment every other week, and I'll go until I reach 40 treatments. Then I'll get chelated once a month or once every other month forever -- or until I reach 100. For information on chelation, do not ask your favorite doctor. Instead, go to your local health food store and buy the book called

"The Chelation Answer." A second choice is a book called "Bypassing Bypass."

Incidentally, Johnson & Johnson came out last week with big-time publicity on their new stainless steel "stent," which was just approved by the FDA. A stent is a little spiral strainer that is fitted into a clogged-up vein to keep it open. Medtronics' stent was approved over a year ago, and I had one put in me, following a mild heart attack (it was after that heart attack that I decided to start chelation). The FDA estimates that up to 300,000 Americans who undergo annual angioplasty will qualify as stent patients. The Johnson & Johnson Palmaz-Schatz stent has been under trial for FDA clearance for the past seven years. How about that FDA? Said Dr. Richard Schatz (co-inventor and research director of interventional cardiology here at Scripps Clinic in La Jolla), "There's no regulatory body overseas. We support about a billion dollars in research and development overseas. If you have a product and it looks exciting and a break-through, you can't afford to sit on it while the FDA deliberates it. There's a ten-year lag -- it's so much easier to go to Europe to prove it works. We call ourselves cheerleaders; we develop all the technology, and we get all excited about it, but we can't use it. We sit and wait." In the meantime, the rest of the world is way ahead of the US on stents. They've been working with them for years and are in the third-stage on stents while we're just starting. So much for the FDA.

THE DOLLAR: The dollar, after taking a major beating during much of '94, has finally turned **bullish.** I obviously can't predict how long the bull phase will last, but from a head-and-shoulders bottom, the dollar (August 25) broke out on the upside and now it's on its way.

The bond market clearly loves the stronger dollar, and the bond market's enthusiasm immediately rubbed off on the stock market, which celebrated with an upside explosion.

The most important current dollar relationship is that between the dollar and the yen. Japan is finally opening up its market to outsiders (at least to some extent), which means that US goods will move into Japan at an accelerating rate. This should definitely help the US' balance-of-trade with Japan, and this is one of the main reasons for the current strength in the dollar vs. the yen. Furthermore, the Japanese have been very worried about their super-high-priced yen, and the Bank of Japan has been in the currency market almost daily buying dollars and selling yen.

In the meantime, "the Comeback Kid," also known as Bill Clinton, finally has a spate of luck on his side. His so-called "crime bill" looks like it's in place, Whitewater has quieted down, Hillary is backing off and is assuming her housewife mode, the economy is humming and now the dollar is going Willy's way. Who knows, if this keeps up the Prez's approval rating might even push above 50% -- but don't count on it.

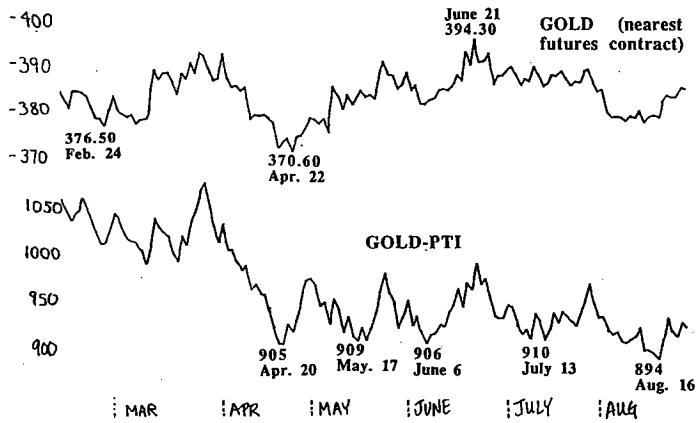
In case you didn't notice it, the charts (S&P and the Dow) on the bottom of page 3 of the last Letter were mislabeled. The 200-day MA and the 30-day moving averages were switched. Nothing annoys me more than screwing up a chart and hoping that subscribers "unravel it" themselves.

GOLD: Referring to gold and my Gold-PTI, it's been quite a performance. The G-PTI dipped into the 905-910 zone four times, but each time it bounced up like a rubber ball. Then on August 12 the G-PTI tested the 905 area for the fifth time, but here the G-PTI broke, sinking to the August 16 low of 894. Another very half-hearted recovery took place, leaving the G-PTI in "no-man's land."

Did the drop to 894 represent the final wash-out? Pessimism is rampant regarding the precious metals, and let's face it -- it's been a long, frustrating summer for gold-philes. Many gold stock holders have given up and dumped their shares. The speculative low-priced "cats-and-dogs" of the gold group have been pulverized. The gold-haters are gloating. The brokerage house reports are saying "avoid." Anything over 390 is being referred to as "the sell zone."

NEXT MAILING: Sept. 14, 1994

And the pros are saying that selling calls on gold is tantamount to an annuity.



Even the most optimistic gold-lovers have lost faith in the metal doing anything on the upside. Proof -- the December 400 gold options are selling around 3.20. This means that for just $320 you can buy an option that will give you a call on 100 ounces of gold. These options will be "in the money" if gold rallies less than 20 bucks, to above 400. Let me put it another way -- the option sellers are saying that there's no way gold will get to 400 by December, and they're willing to sell you an option to that effect for only $320 dollars. Are the gold pessimists right? We'll find out, won't we.

Russell opinion: Holding gold here is an act of faith. I have faith in gold, and I continue to hold my coins. As for the gold stocks, I have to admit that I'm cutting back. I'll have to get encouragement from my Gold-PTI before I can get hopeful on the gold shares, and so far, blast it, the G-PTI has given me no encouragement. In this business, you better believe what the market tells you, and the market is telling me that there's no interest in the gold shares, not now at any rate. The gold coins -- that's another story. I view my gold coins as insurance. Nothing would make me sell them, except the US going on the gold standard at $900 gold.

LATE NOTES: Well, I said weeks ago that the "key to the stock market is the April lows, namely **3593.35** for the D-J Industrials and **1546.02** for the D-J Transports." And the fact is that those lows have not been violated. Is it still a bull market? If the Dow and the Transports go above their highs and leave the April lows behind it is. But if one or both Averages fail to better their highs, and instead they break below the April lows, then the bear is in command.

In my opinion two items have set off this most recent rally. (1) The market sensed that the Clinton "health reform" plan was dead. The Clinton (Hillary) plan was a brand of government-sponsored socialism, and Wall Street wanted no part of it. Also, the demise of the Clintons' health reform represented a defeat for Clinton and his administration, and that defeat hinted of victory for a lot of Republicans in November. More Republicans and fewer Democrats would cheer Wall Street.

(2) The dollar has turned strong against the yen and the major European currencies. The bond market loves it. Wall Street has been praying for two events -- the defeat of the Clinton crowd and the ascendancy of the dollar. It appears to be happening. Question: Do these two events means that it's a bull market? Answer -- no.

LATE, LATE NOTES: The latest *Barron's* figures show total Dow dividends at $102.28, meaning that the Dow at its current price is selling at a whopping 38 times its dividends. This is roughly double its "normal" average price. . . Also, the latest figures show the US federal budget deficit for the past 12 months at $293 billion. At this rate we'll add another trillion dollars to the national debt within 30 months. Russell question: can the dollar survive this kind of debt build-up?